Ontario. Teachers' Pension Plan Board.

Annual Report

Ontario

Teachers'
Pension Plan
Board

ANNUAL REPORT 1994

CORPORATE PROFILE

The Ontario Teachers' Pension Plan Board is the largest single invested pension plan in Canada and ranks among the nation's top financial institutions.

The plan has total assets exceeding $35 billion. Approximately two-thirds of assets are equities, principally corporate shares and equity-return derivative contracts. A small portion of the equity portfolio is income-producing real estate. The remaining one-third of assets are fixed-income securities, largely Ontario government debentures and interest rate swap contracts.

The plan's membership consists of 160,000 elementary and secondary school teachers and more than 46,000 retired teachers and their survivors. There are also approximately 90,000 former teachers with entitlements in the plan.

The plan is co-sponsored by a partnership between the Ontario government and the plan members, who are represented by the Ontario Teachers' Federation.

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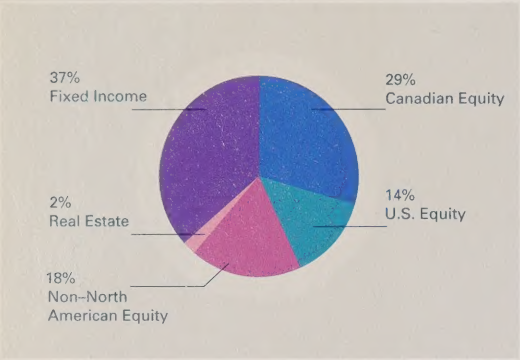
Asset Mix*
(as at December 31)



* includes effect of derivatives

FINANCIAL HIGHLIGHTS

at December 31 ***($ billions)***	**1994**	1993
Total assets	**35.1**	34.7
Canadian equities	**9.9**	7.5
Foreign equities	**10.7**	7.0
Real estate	**0.7**	0.6
Fixed income	**12.4**	18.1
Contributions receivable	**1.4**	1.4
Rate of return on investments		
Annual	**1.7%**	21.7%
Real return, after inflation	**1.5%**	20.0%
Four-year average	**12.7%**	13.8%

Average Annual Compound Rates of Return (%)

1 yr	2 yr	3 yr	4 yr	5 yr
1.7	11.3	10.5	12.7	11.2

Total Assets (billions)
(at December 31)

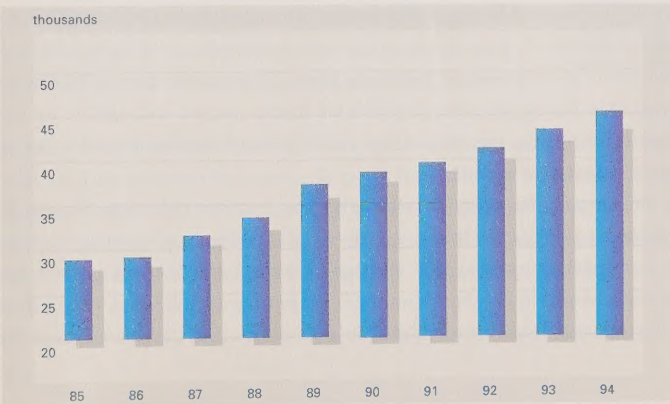
($ millions)	1994	1993
Investment operations		
Investment income	528	5,907
Investment expenses	(25)	(20)
	503	5,887
Customer service operations		
Total contributions	1,436	1,401
Benefits paid	(1,130)	(1,001)
Customer service expenses	(26)	(24)
	280	376
Distribution of actuarial gain	–	(325)
Increase in net assets	783	5,938

($ billions)		
Future cost of pensions	36.8	34.0
Actuarially adjusted net assets*	34.2	30.8
Deficiency	2.6	3.2

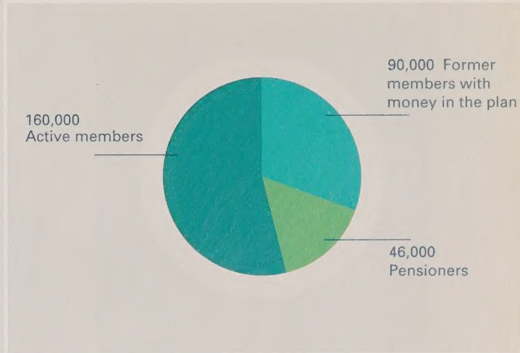
**The actuary smoothes gains or losses over five years.*

Number of Pensioners

(at December 31)



Membership Profile



Contributions (millions)

Gerald K. Bouey
Chairperson

CHAIRPERSON'S REPORT

For the past five years, the board of directors of the Ontario Teachers' Pension Plan has been dedicated to enhancing the security of retirement income for Ontario's current and former teachers. This is an easily stated objective; pursuing it, however, has been a challenging and enlightening experience.

The current board was appointed in 1990 to assume responsibility for investing the pension plan's assets. The board's mandate is to diversify those assets with a view to improving their long-term yield. At the same time, the board took over from the Teachers' Superannuation Commission the responsibility for paying pensions and administering the pension plan.

In carrying out this mandate, we have been fortunate to have on the board individuals with extensive experience in the complexities of capital markets as well as individuals who have a thorough understanding of the needs and expectations of plan members.

Diversification into equity investments

Our progress in the past five years has been quite remarkable. For one thing, we have gone from a pension fund consisting solely of Ontario debentures to a portfolio that consists 63 percent of equities, or their equivalents, and 37 percent fixed-income securities.

The equity portfolio contains the shares of Canada's leading publicly traded corporations. For example, we have invested $100 million or more in individual companies such as Alcan, Barrick Gold Corporation, five large Canadian banks, BCE Inc., Canadian Pacific, Inco, Northern Telecom, Nova Corporation, Placer Dome, Renaissance Energy, Seagrams, and Thomson Corporation. Being a large shareholder in such prominent corporations carries with it a considerable amount of responsibility.

I refer our plan members and interested parties to page 23 where we discuss our policy and practices on proxy voting in the companies in which we invest. As you will notice, we continue to oppose management resolutions that we believe could erode potential shareholder value, such as excessive stock options for executives.

At the same time, the Ontario Teachers' Pension Plan has become one of the largest Canadian sources of equity capital for companies that need financial assistance in meeting their growth potential. Needless to say, we are interested in sharing in these firms' income growth. Over the past five years, we have invested in private Canadian companies as diverse as White Rose Crafts & Nurseries, Vincor International Inc. (a merger of Brights Wines and Cartier & Inniskillin

Vintners), the Canadian film and TV series producer Alliance Communications Corporation and Maple Leaf Gardens.

Diversification into global markets

An important part of the pension plan's income now comes from outside Canada. At the 1994 year end, we held equity investments in 40 countries – from Japan and Hong Kong to Britain and Germany, as well as in the United States.

We have, therefore, moved a long way from an investment policy based solely on Ontario debentures. Our fixed-income portfolio has also diversified. Today, we have $771 million in Government of Canada bonds as well as $252 million in foreign bonds, representing over 3 percent of the total fund.

> WE DO NOT TRADE IN DERIVATIVES TO MAKE PROFITS FROM SPECULATION

Using appropriate tools to manage risk

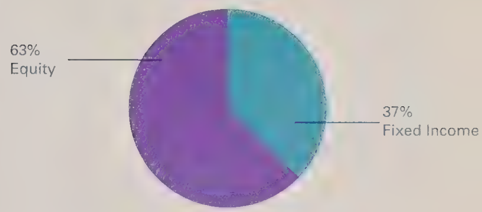
An area where we have made important advances is in the use of sophisticated investment instruments – namely derivative contracts, such as interest rate and equity swaps, options and futures contracts.

We have developed expertise in the use of these products so that we manage our risk exposure to interest rate fluctuations and facilitate the conversion of income from debentures into equities. It is important to emphasize that we do not trade in these financial instruments to make profits from speculation. Our goal is to reduce the risks of the plan's assets and improve returns.

For the past three years, the directors have made a concerted effort to establish appropriate controls for this aspect of our business. We have, for example, reviewed our operations in light of the recommendations by the Group of 30 on the use of derivatives.

This complex area of investment is explained at some length in the section on Management's Discussion & Analysis as well as in the notes to the financial statements.

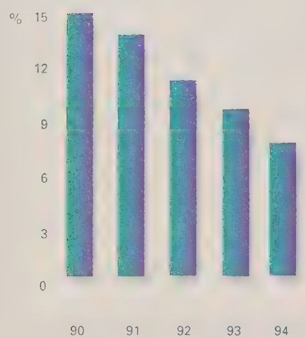
Asset Mix*
(as at December 31)



* includes effect of derivatives

The Deficiency

(as a % of liabilities)



Reducing the deficiency

The improved security of retirement income for plan members is reflected in our progress in reducing the deficiency that existed in the pension plan's financial statements when we began to implement our new investment strategy.

At the end of 1990, the plan had a deficiency of $3.6 billion – that is, the difference between the present value of all pensions promised and the market value of assets in the plan. By the end of 1994, we had reduced that deficiency to $2.6 billion. This means that 93 percent of benefits are now fully funded, compared with 85 percent in 1990.

We will continue to work toward the elimination of the deficiency and the achievement of a surplus to underwrite the security of future pensions.

93 PERCENT OF BENEFITS ARE NOW FULLY FUNDED

Independence of the board

On January 1, 1992, the Ontario government and the Ontario Teachers' Federation (OTF) became joint sponsors of the plan. However, the pension plan board is a statutory corporation that is independent of both the government and the OTF.

Although the plan co-sponsors appoint the board of directors, the directors are required by law to act in the best interests of all current and future plan members and their beneficiaries. Maintaining independence from any special group, including the plan co-sponsors, is integral to our fiduciary duties. This relationship is discussed fully in the section on our Corporate Mandate and Management, beginning on page 12.

I am pleased to report that a very good working relationship has emerged among the two sponsoring partners, who are responsible for plan design and the level of benefits, and the board, which is responsible for plan administration and investment management. Overall, the different roles of these parties ensures appropriate checks and balances in the plan's governance.

Change in board membership

It is essential to have both vitality from new directors and continuity from experienced directors on the board. After all, we are responsible for managing a $35 billion fund with the single goal of

providing pensions to plan members as well as future beneficiaries. Being a director is, therefore, a challenging task.

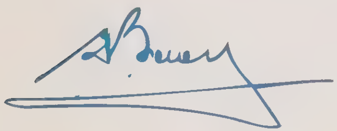
At the end of 1994, Duncan Green became the first director to leave the board since its inauguration on January 1, 1990. Duncan was a director of education for the Toronto Board of Education and assistant deputy minister with the Ministry of Education. Duncan is known to many plan members for his service as chair of the board's benefits adjudication committee. He brought an invaluable perspective to our deliberations and his counsel will be missed.

Replacing Duncan on the board is Jalynn Bennett, president of a consulting firm that specializes in strategic planning and organization development in both the public and private sectors. Prior to founding her own business in 1989, Jalynn was associated for close to 25 years with a major Canadian financial institution, where she had extensive experience related to Canadian capital markets as well as senior corporate management responsibilities. Jalynn, who has served on our investment committee since 1992, is a former director of the Bank of Canada and a former commissioner of the Ontario Securities Commission. She also serves on the boards of several corporations and not-for-profit organizations.

Since directors cannot serve for more than eight years, there will be a considerable change in board membership over the next three years.

Acknowledgements

On behalf of the directors, I want to thank the staff of the pension board for their commitment to the professional management of the investment business and customer services. Their efforts ensure that the pension plan functions as a corporate endeavor dedicated to the best interests of current and future members.



Gerald K. Bouey
Chairperson

BOARD OF DIRECTORS

Gerald K. Bouey
former Governor of the Bank of Canada
Chairperson of the Board

Jalynn Bennett
President of Jalynn H. Bennett Associates
and former commissioner of the
Ontario Securities Commission

John H. C. Clarry
counsel with McCarthy, Tetrault
barristers and solicitors

Gail Cook-Bennett
Executive Vice-President of Bennecon Ltd., former
economics professor at the University of Toronto and
senior executive with the C.D. Howe Research Institute

Martin Hicks
investment consultant with extensive experience in the
Canadian and U.S. investment industries, and former
senior executive at Pru-Bache Securities

Doug McAndless
former public school teacher and past president of
the Ontario Teachers' Federation
Chairperson of the Audit and Actuarial Committee

C. Edward Medland
former Chief Executive Officer of Wood Gundy Inc.
Chairperson of the Investment Committee

Lynne Sullivan
principal with Towers Perrin, management consultants
and actuaries

Margaret Wilson
Secretary-Treasurer of the Ontario Teachers' Federation,
past president of the federation and former secondary
school teacher

Claude Lamoureux
President and
Chief Executive Officer

After last year's relatively high investment returns, 1994 was a year of volatility and turmoil on international capital markets. The Canadian bond market, for example, had one of the worst performances in its history. At year end, investment income totalled $0.5 billion, compared with $5.9 billion in 1993. This income translated into a 1.7 percent rate of return for 1994.

Four-year investment performance

One year's performance is of limited significance to a defined benefit pension plan for two reasons. One – as 1994 showed – is the short-term volatility of stock and bond markets; the other is that we pay pensions over the long term. Consequently, a longer-term average of performance is more meaningful. The four-year average is a common measurement standard in the pension fund industry.

The fund produced an average 12.7 percent rate of return over the past four years. After allowing for inflation, the real rate of return was 10.7 percent. This compares favourably with the plan's long-term target of 4.5 per cent above inflation – a target that should make it possible to avoid increasing the current contribution rate by teachers and the government while moving to a fully funded position.

Investment performance and teachers' pensions

Currently, a teacher earning $50,000 pays close to $4,000 a year in contributions to the plan. The cost to the plan of providing a $35,000 annual indexed pension to a 35-year career teacher is about $500,000.

We expect that the combined contributions from members and the government will meet about 25 percent to 30 percent of that pension, with the remainder coming from investment income earned by the plan. A one percentage point variance in the average investment performance affects the contribution rate by 20 to 25 percent over the long term.

Investment performance is therefore vital to contribution rates and future pension income.

Asset mix

We are now at our asset mix target. The proportions at the 1994 year end were 63 percent equities and 37 percent fixed-income securities. Both the equity and fixed income portfolios included various derivative contracts, such as swaps, options and futures. Overall, equities earned 6.8 percent in 1994 and fixed-income investments were minus 3.1 percent.

The $21.3 billion equities portfolio consists of investments in companies around the world.

These investments enable the fund to benefit from a diversity of economic sectors and different regional economies. We have $694 million invested in income-producing real estate and $387 million of equity in privately owned business enterprises.

The $12.4 billion fixed-income securities portfolio consists mostly of non-marketable Ontario debentures, as well as a variety of Canada bonds, the bonds of foreign governments, index-linked bonds and mortgages, and money market securities, such as treasury bills.

For full details on our investment policies and performance, please see page 16.

Progressive administration

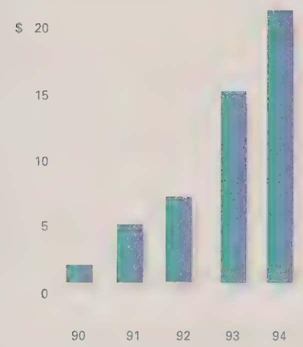
While the diversification of assets under an orderly investment strategy has been a priority for the past five years, we have also paid close attention to the pension administration side of the business. Our plan members work for more than 260 school boards and private schools around the province. Their pension entitlements and other services are delivered through our centralized customer service organization, which handled more than 80,000 telephone calls from members in 1994 and processed approximately 55,000 entitlements and requests for benefit information.

> DURING THE PAST 10 YEARS, THERE WERE 83,500 PURCHASES OF CREDIT

During the past five years, the delivery of services to members has been modernized through the introduction of new computer technology and a thorough review of the hundreds of thousands of pension records we inherited in 1990. The work of reviewing records and correcting errors continues as we strive to become a more efficient organization in delivering services to plan members.

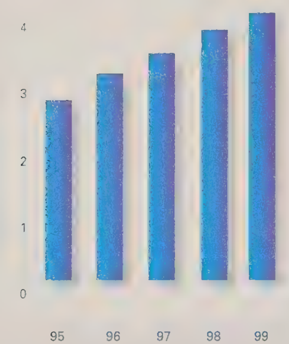
In 1994, we completed the program introduced by the government in 1984 that allowed teachers to purchase pension credits for past gaps in service. During the past 10 years, 83,500 applications were approved as eligible purchases of credit. The final deadline for eligible teachers to pay for these credits was December 31,1994. In 1994, 18,000 teachers invested $60 million in the plan under this program. Combined with the payments made during the previous years, the plan received $220 million from members for past credits.

Growth of Equity Portfolio*(billions)



* includes effect of derivatives

Projected Retirements



Customer Service Expenses

($ millions)	1994	1993
Salaries and benefits	**$13.3**	$12.1
Premises and equipment	**7.5**	7.7
Professional consulting services	**2.8**	2.5
Communication and travel	**1.5**	1.3
Board and committee remuneration	**0.1**	0.1
All other	**0.6**	0.5
	$25.8	$24.2

Customer service

When members call us for information about benefits or retirement, we are now able to handle most requests immediately over the phone. Situations requiring investigation or contact with school boards for more information took an average of 12 days to complete, compared to months previously. Phone service has also improved significantly with 95 percent of all calls answered within 30 seconds.

Overall, plan members have indicated increasingly greater satisfaction with the services we provide. Their assessment of specific services over a given time period is gathered through written surveys. The results are compiled in a statistical summary, called the quality service index (QSI), which tracks changes in our performance.

OVER THE NEXT FIVE YEARS, WE EXPECT 17,000 TEACHERS TO RETIRE

Steady increase in retirements

We have seen a steady increase in the number of teachers retiring each year — a trend we expect to continue. In 1994, 3,627 teachers retired, compared with 3,300 in 1993. This increase partly reflected early retirement incentives offered by school boards under the government's social contract.

The pension population was approximately 46,000 at year-end. Over the next five years, we expect 17,000 teachers to retire — a 40 percent increase over the 12,000 who retired during the past five years.

Changes in operating costs

The pension board's operating costs rose by 14 percent to $50.7 million in 1994, compared with $44.3 million a year earlier.

Costs relating to customer services were $25.8 million, compared with $24.2 million in 1993 for a six percent increase. The principal cause of the increase was the administration of the credit purchase program discussed earlier.

As projected in the 1993 Annual Report, costs associated with investments increased in 1994 to $24.9 million, compared with $20.1 million in 1993. Staff costs represent approximately 40 per cent of total investment expenditures. Fees for external fund managers and other professionals expanded with the volume of funds actively invested.

We expect investment costs to rise further in 1995 – again as a result of hiring more staff specialists and using outside professionals to manage the investment portfolio on a more active basis.

Our 1994 investment costs were about 7.5 cents for each $100 of assets, compared with just under seven cents in 1993. These costs are low compared with similar investment organizations. For example, the 1993 average cost of investment services among comparable North American pension funds was close to 15 cents per $100 of assets and for equity mutual funds was about $2.00.

Outlook

We are confident of achieving our long-term investment performance target of 4.5 percent real growth net of inflation now that the pension fund is within the asset mix range of two-thirds equities and one-third fixed income securities.

We have made tremendous strides in improving the administration of the plan and introducing modern management processes. This work will continue in 1995.

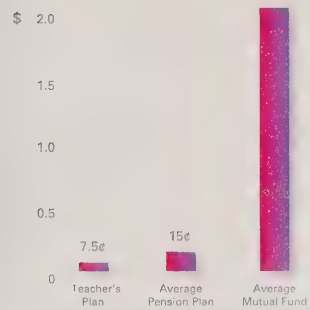
We expect further improvements in reducing the deficiency as we continue to work toward a surplus position.

C. Lamoureux

Claude Lamoureux
President and Chief Executive Officer

Investment Expenses

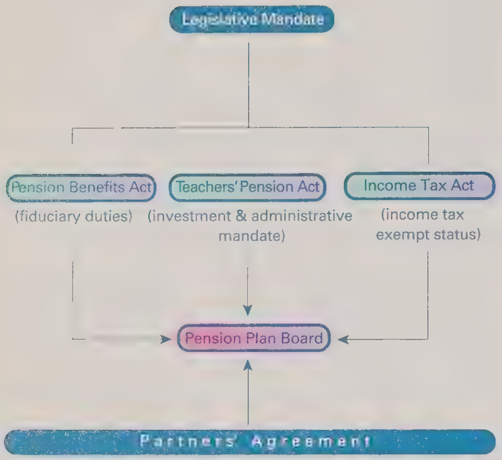
Cost per $100 of assets



Investment Expenses

($ millions)	**1994**	1993
Salaries and benefits	**$10.4**	$7.0
Investment management fees	**6.7**	5.7
Custodial and banking fees	**2.9**	3.1
Premises and equipment	**1.6**	2.0
Professional consulting services	**1.9**	1.0
Communication and travel	**0.6**	0.5
All other	**0.8**	0.8
	$24.9	$20.1

Legislative Mandate



The Ontario Teachers' Pension Plan Board derives its investment and administrative powers from statutes and a written agreement between the plan's co-sponsoring partners. The co-sponsors are the Ontario government and the Ontario Teachers' Federation as the representative of plan members.

The pension board has the fiduciary duty to administer the plan and manage the investment fund in the best interests of present and future plan members and their survivors. This duty is vested in a nine-member board of directors appointed by the partners. Day-to-day management is delegated by the directors to a chief executive officer and his staff.

THE PENSION BOARD HAS A FIDUCIARY DUTY TO INVEST IN A PRUDENT MANNER

Authority of the board

The Ontario Teachers' Pension Plan Board is an independent corporation (without share capital) established at the beginning of 1990 by the *Teachers' Pension Act*. This Ontario statute authorizes the pension board to administer the pension plan, manage its investment assets, and pay members and their survivors the benefits promised. Specifically, the *Teachers' Pension Act* states: "The Board shall administer the pension plan and manage the pension fund in accordance with this Act, the *Pension Benefits Act*, and the *Income Tax Act* (Canada)."

The plan is a defined benefit pension plan registered under the *Pension Benefits Act* and the *Income Tax Act*. The first statute defines fiduciary duties of all pension plans in Ontario and obliges them to invest assets in a prudent manner. The standards of conduct expected of a fiduciary are also set out in common law.

Partners' agreement

The *Teachers' Pension Act* provides for the joint sponsorship of the pension plan by the Ontario government, through the Minister of Education and Training, and the executive of the Ontario Teachers' Federation.

An agreement signed by the partners, and effective January 1, 1992, sets out the terms of this joint sponsorship. The agreement deals with the appointment of the board of directors and delineates its powers and duties other than those set out in legislation.

Prior to the partners' agreement, the Ontario government was the sole sponsor of the plan. Now, the government and the OTF are full partners, equally responsible for future plan gains or losses.

Responsibilities of partners' committee

Under the partners' agreement, a six-member partners' committee is responsible for changes in plan design such as contribution rates and benefit levels.

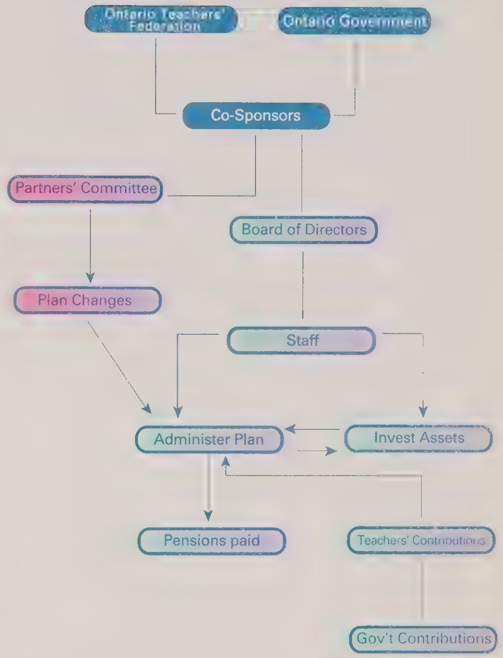
The members of the partners' committee are not members of the board of directors.

Responsibilities of board of directors

The board of directors acts as the plan trustee and has full responsibility for both the administration of the plan and the management of the fund. The board is required to manage the fund so that the pension plan's obligations are met, to obtain an actuarial funding valuation at least every three years, to review its investment policy annually, to ensure an independent audit is conducted every year, and to prepare an annual report.

The audit of the plan's financial statements is conducted by the firm of Deloitte & Touche. The actuarial valuation of assets and liabilities is carried out by William M. Mercer Limited and its report is filed with the Pension Commission of Ontario. Both the auditor and actuary are considered for re-appointment annually by the board of directors.

> THE PARTNERS' COMMITTEE – NOT THE PENSION BOARD – IS RESPONSIBLE FOR CHANGES IN PLAN DESIGN



Independence of board of directors

By law, the board of directors is required to act independently of the Ontario government and the Ontario Teachers' Federation. The directors are required to make decisions in the best interests of all beneficiaries.

In this respect, the role of the board is similar to that of any corporation, where the directors are required to act in the best interests of the corporation and its shareholders generally, and not in the interests of any specific group of shareholders. The board currently represents the

interests of over 290,000 individuals, including active teachers, former teachers, retired teachers, and other beneficiaries such as the survivors of deceased plan members.

WE PROVIDE PERSONAL SERVICES DIRECTLY TO MEMBERS

Board committees

The board of directors has three committees which make recommendations to the full board:

- *the investment committee,* which reviews the investment policy and asset mix, establishes performance objectives for each investment portfolio, and reviews all transactions that exceed the discretionary limits that it sets for management. This committee includes all directors, as well as investment specialists as appointed by the board.
- *the audit and actuarial committee,* which reviews the quarterly and annual financial statements, recommends the appointment of the external auditors and the independent actuary, and receives their reports. This committee consists of five directors.
- *the benefits adjudication committee,* which rules on disputes between plan members and board staff about pension benefits. This committee is chaired by a director of the board and has 11 non-board members nominated by the partners and appointed by the board.

Management of board business

On-going plan administration and investment management is delegated by the board of directors to the chief executive officer and his staff.

The Teachers' Pension Plan Board manages two core businesses — customer services and investment services — each supported by general corporate services. This is one of few pension organizations to provide personal services directly to members rather than through their employers. In this respect, the pension plan is a substantial customer service organization.

The management structure of the organization reflects this emphasis on investments and customer service, supported by corporate services. The corporate directory on the inside back cover identifies the management team effective March 1995.

Performance incentives for employees

During the past five years, the board has hired staff with the experience and professional qualifications needed to implement the investment strategy and administer the pension plan.

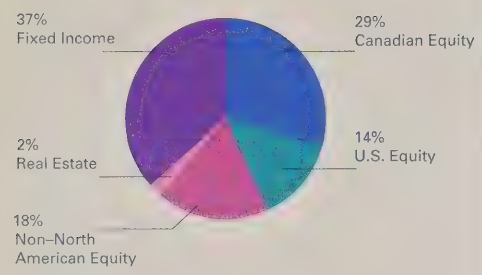
The board of directors reviews the compensation-for-performance program for employees and approves salary ranges competitive with similar positions in like organizations in the financial services sector.

Managers and employees who directly or indirectly serve teachers and pensioners are rewarded for meeting pre-set service objectives and cost control targets. Investment managers are rewarded for individual, portfolio and total fund performance.

Long-term bonus plans are in place for executive staff, with the first payouts scheduled for April 1996. For investment executives, these bonuses will be based on total fund performance over a four-year period. Administrative executives will be rewarded for three-year performance in meeting cost-control targets and improvements in service to members.

Bill Hamblen and his wife Margot own and operate the 47-acre Hamblen Christmas Tree Farm in Athens, Ontario. Bill retired in 1989, but the family began farming in 1970 on land granted to his United Empire Loyalist ancestors more than 200 years ago.

Asset Mix*
(as at December 31)



* includes effect of derivatives

FOR THE PAST FOUR YEARS, THE RATE OF RETURN AVERAGED 12.7 PERCENT

As a large institutional investor active in the public marketplace, we believe that we should expect of ourselves the same kind of public accountability that we expect of the companies in which we invest. As a result, the pension board is committed to disclosing and discussing its investment activities and financial performance on the same basis as publicly traded corporations are required to report to their shareholders. In our case, we are accountable to the members of the plan.

This section of the Annual Report provides a more detailed discussion of the information contained in the audited financial statements to assist stakeholders in viewing the plan's performance through the eyes of management. In general, this discussion responds to the policy issued by the Ontario Securities Commission for publicly traded companies.

Throughout this report, the effects of the use of derivatives are included in the value of investments, investment income and rates of return. Derivatives are used primarily to convert the fixed income return on the Ontario debentures into an equity return, as described in notes 2(b) and 2(c) to the financial statements.

Investment Policies

The plan's investments are managed to earn the best possible rate of return so that increases in contribution rates are avoided and members receive the retirement benefits promised. Our investment policy is expressed in a document entitled Statement of Investment Policies and Goals, which is reviewed annually by the board of directors and filed with the Pension Commission of Ontario. The statement provides the framework for the asset mix policy and the portfolio diversification into each class of investment.

Investment constraints

As a pension plan, we are governed in ways that are distinct from a publicly traded corporation. Legislation requires us to "exercise the care, diligence and skill in the administration and investment of the pension fund that a person of ordinary prudence would exercise in dealing with the property of another" (subsection 22 (1) *Pension Benefits Act*).

Under the "prudent person" rule, we are expected to consider every type of investment product that would be considered appropriate for a modern investment portfolio. The investment staff's authority to invest in any particular product derives from resolutions approved by the board of directors.

Under provincial statutes, we are restricted to owning no more than 30 percent of a company's voting shares, except shares of special-purpose subsidiaries such as our wholly-owned real estate company Ontrea Inc. We are generally prohibited from mortgaging or pledging assets as well as from borrowing, except for short-term contingencies.

Investment objective

Our objective is to earn an annual rate of return of 4.5 percent above inflation over the long term. This level of performance, we believe, could ultimately lead to a reduction in the contribution rate of members from the current level of 8.9 percent of salary.

For the past four years, the rate of return averaged 12.7 percent. The real rate of return, after allowing for 2 percent inflation over the period, was 10.7 percent, well above our goal.

> WE ARE RESTRICTED TO OWNING NO MORE THAN 30 PERCENT OF A COMPANY'S VOTING SHARES

Asset mix goals

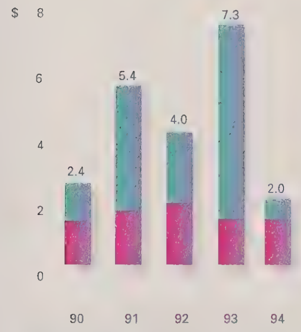
To achieve the overall return objective, we have chosen an asset mix of approximately two-thirds equity and one-third fixed-income securities. Studies show that such an asset mix has a high probability of keeping the fund in a sound financial position over the long term, which enhances the security of future pension benefits. The security of retirement income is important because teachers, who typically retire at age 58, live on pension for an average of 25 years.

At the end of 1994, 63 percent of the assets generated an equity return, compared with 46 percent in 1993 and 26 percent in 1992. In the future, equities could range from 55 percent to 75 percent depending on market conditions.

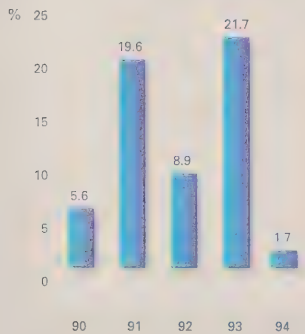
Managing cash flow

We receive substantial cash on a continuing basis from investment income and the contribu-

Revenue (billions)
(as at December 31)



Rate of Return History



tions of plan members and the government. Net of pension payments and operating costs, cash available for investment totalled $2.4 billion in 1994.

Starting in August 1996 our cash flow will increase by over $400 million a year when the Ontario government resumes the special payments it has promised to make until 2029 to eliminate the pre-1990 unfunded liability. (This is discussed on page 28).

Our aim is to be fully invested at all times while maintaining a minimum of our assets in liquid investments, such as treasury bills and bank deposits, to meet pension and other payments.

92

PERCENT

OF ASSETS

ARE MANAGED

IN-HOUSE

Investment management approach

In view of our investment objective and asset mix targets, we have organized our resources to take an active approach to investment.

Value-added asset management

We have adopted an active value-added approach to investment, even in the case of index funds. With 92 percent of assets managed in-house, we have over 40 staff professionals to implement our investment strategy.

We apply quantitative techniques to about 45 percent of the portfolio; for example, we purchase stock based on selected criteria such as price/earnings ratios. By doing this on a large scale, we attempt to achieve higher rates of return with low costs and reduced risk.

We also invest in equities at a reduced cost by using derivative contracts based on equity indices to replace direct investments in the cash markets.

In the case of fixed-income securities, we actively manage the interest-rate exposure of the non-marketable Ontario debentures through the use of derivative contracts.

Risk management

The pension plan faces several challenges because of its history and structure, and because of investment market realities. Among the most important challenges are:

- the size and non-marketable nature of the debenture portfolio

- the related exposure to interest rate volatility
- stock market volatility
- the relatively small size of the Canadian stock market
- the foreign exchange exposure of our investment returns, and
- the threat of long-term inflation.

Non-marketability of Ontario debentures

The plan still owns $17.2 billion of these debentures, the last of which do not mature until 2012. In the meantime, we are using derivatives as an efficient and cost-effective way to shift the returns on more than 60 percent of these assets primarily into equity equivalents.

In essence, the fixed-rate interest income from the debentures is exchanged for floating-rate income, using interest rate swaps. This floating-rate income is then exchanged for equity income using equity swaps. There is no capital risk in this process as we retain ownership of the underlying debentures; we swap only the interest from the debentures, not the principal.

For further details on our investments in derivative contracts, which include swaps, futures and options, please see note 2(b) to the financial statements.

WE SWAP ONLY THE INTEREST FROM THE DEBENTURES, NOT THE PRINCIPAL

Acquiring equity returns with derivatives

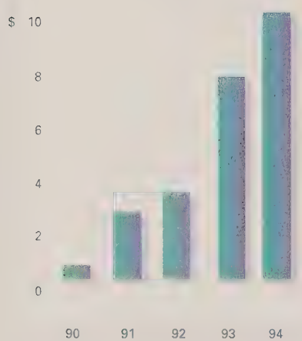
In converting the interest return on our debentures into equity returns, we do not assume any incremental market risk through the use of derivatives compared with the risk assumed in direct cash market purchases of equities.

Interest rate volatility

During 1994, the fund dramatically reduced its exposure to interest rate volatility using derivatives. Early in the year, 54 percent of the assets were in debentures. Without derivatives, every 1 percent increase in interest rates reduced their market value by over 7 percent. By year-end, only 37 percent remained in fixed income, and every 1 percent increase in interest rates lowered their value by less than 3 percent.

Joan Caeser always wanted to play the saxophone, so after a 35-year teaching career she went back to secondary school to learn how. Joan retired in 1991 and now performs with the Lincoln County Concert Band.

Growth of Canadian Equities*
(billions)



* includes effect of derivatives

The shift to equities increased total fund returns, since equities fared better than bonds last year. However, the shift was easiest to accomplish by first swapping the shorter debentures, leaving fixed income with the more volatile longer debentures.

Since interest rates rose sharply in early 1994, the benchmark return for the fixed income fund in 1994 was minus 8.9 percent, similar to that of other very long Canada bond portfolios. Derivatives helped produce an actual return of minus 3.1 percent.

CANADA REMAINS OUR PRIMARY EQUITY MARKET

Volatility of stocks

Our diversification since 1991 from a fixed-income base into a two-thirds equity-weighted asset mix proportionately reduces the fund's exposure to interest rate volatility, but increases its exposure to the volatility of stock markets. While occasional negative returns are inevitable, the long-term performance of corporate shares outweighs the risks of short-term cyclical volatility.

Size of Canadian market

The Canadian stock market is our premier venue — yet represents just under three percent of global markets. A further market restraint is the fact that the shares of most leading Canadian corporations are closely owned. This means a limited number of shares is available to the public, causing difficulties for large investors seeking equity opportunities in Canada.

Part of our risk management strategy involves diversification into the shares of overseas corporations to reduce the fund's dependency on the Canadian economy and to take advantage of different regional economies throughout the world. This global diversification involves the use of derivative contracts on foreign markets. Being exposed to several economies reduces portfolio volatility. However, Canada remains our primary equity market, followed currently by the United States and then Japan.

Foreign exchange exposure

A significant portion of our investment return is now denominated in various foreign currencies. This risk exposure is taken into account when we make foreign investments.

In 1994, our assets were largely unhedged for foreign exchange fluctuations. To the extent our

results are determined by changes in the value of the Canadian dollar, we will monitor and implement appropriate risk-management policies. In view of the Canadian dollar's steep decline in value against leading currencies in late 1994 and early 1995, we will be paying increasing attention to foreign exchange fluctuations.

Long-term inflation

Although Canadian inflation was low in 1994, it remains an on-going concern because pensions are adjusted for changes in the Consumer Price Index to a maximum of eight percent in a single year, with any excess carried forward. Inflation will inevitably recur over the long term, increasing the funds required to meet future pension commitments.

To offset the risk due to liabilities increasing because of inflation, we invest a substantial part of new funds in assets that historically have responded well to unanticipated inflation, such as equity shares, real-rate bonds, index-linked mortgages, and income-producing real estate properties.

> THE LONG-TERM PERFORMANCE OF STOCKS OUTWEIGHS THE RISKS OF SHORT-TERM VOLATILITY

Investment performance

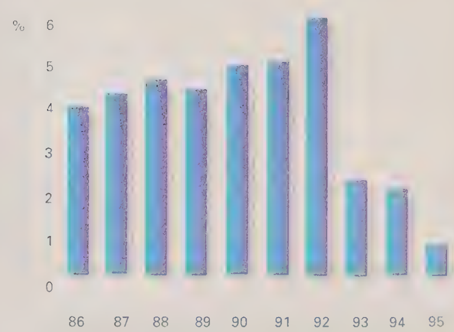
On a market value basis, the pension fund registered a 1.7 percent rate of return in 1994, compared with 21.7 percent in 1993. This compared favourably with the weighted benchmark return of minus 0.3 percent in 1994 and 20.5 per cent in 1993 (restated). After removing the effects of inflation, the real rate of return in 1994 was 1.5 percent, compared with 20 percent in 1993.

Four-year returns

A longer term measure has greater relevance, reliability and lower volatility than one-year performance. A common standard within the pension plan industry is to calculate average performance on a four-year cycle.

Over the past four years, the plan's average annual performance of 12.7 percent exceeds the benchmark rate of return by 2.1 percent and the rate of inflation by 10.7 percent. Again, this performance compares favourably with our goal of exceeding inflation by 4.5 percent over the long term.

Pension Inflation Increases



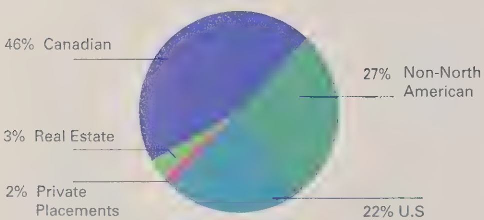
Asset Mix* ($ billions)

	1994	%	1993	%
Fixed income	**$12.4**	**37**	$18.1	54
Equities				
Canadian	**9.9**	**29**	7.5	22
US	**4.7**	**14**	2.6	8
Non-North American	**6.0**	**18**	4.5	14
Real estate	**0.7**	**2**	0.6	2
	$33.7	**100**	$33.3	100

* includes effect of derivatives

Equity Portfolio*

(as at December 31)



* includes effect of derivatives

Change in value of investments

The overall market value of investments increased to $33.7 billion in 1994, compared with $33.3 billion at the end of 1993. The slight increase in market value reflected the disappointing overall performance of capital markets.

In Canada, equity capital markets showed mixed results. For large capitalization companies such as those in the TSE 35 index, the returns were 5.5 percent, but for smaller companies such as those in the TSE 200 index, the returns were decidedly worse at minus 6.6 percent.

Unadjusted for the decline in the Canadian dollar, foreign equity markets fared only slightly better. However, when adjusted for exchange rate gains, the overall returns on the S&P 500 index were 7.3 percent and the EAFE index of non-North American stocks produced a 14.3 percent return. Japanese equities, when returns are translated into Canadian dollars, were a star performer with a 29 percent return.

JAPANESE EQUITIES WERE A STAR PERFORMER WITH A 29 PERCENT RETURN.

Fixed income markets also fared poorly. The Canadian bond market, as represented by bonds with a long maturity, returned a negative 8.1 percent, the worst market since 1956. Mid-term bonds, slightly less volatile, experienced a negative return of 6 percent.

Equity investments

Equities totalled $21.3 billion, or 63 percent of all investments, by the end of 1994, compared with $15.2 billion, or 46 percent of all investments, at the end of 1993. The rate of return on total equities was 6.8 percent, compared with a composite benchmark return of 6.1 percent. The composition of the equity portfolio is shown on this page. Approximately $8.2 billion, or 40 percent, of equity exposure is in the form of swaps and futures.

Index funds dominate the equities portfolio, specifically the TSE 35, 100 and 200 indexes on the Toronto Stock Exchange, the Standard & Poor's 500 on the New York Stock Exchange, and the EAFE index.

Most funding into the EAFE markets occurred during the first six months. During the second half of 1994, we substituted a considerable amount of swaps in place of equities, freeing up cash for deployment to the Canadian stock market. By the end of 1994, we had converted the entire

U.S. equity portfolio and a considerable portion of the EAFE holdings into a derivative exposure.

In addition to index funds, we select individual corporations for equity investment by examining the company's past financial performance, operations, management quality, long-term business plan, board structure and board independence.

The $387 million merchant banking portfolio is one of Canada's largest active pools in assisting companies to fulfill their potential in terms of financial stability, product development, competitive market share, and job creation. We invest in established companies that have proven operations with significant management ownership. We have not been involved in start-up ventures.

Our strategic relationships with merchant banks, brokerage houses, and managed funds in Canada, the United States and Europe also enable us to invest in growth businesses on a pooled basis with other institutions. For example, through two international partnerships we participated in investment in European companies, such as Buffetti, an Italian office supply company, and BP Nutrition, a UK-based agricultural feed supplier.

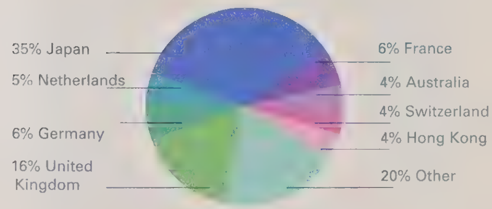
WE INVEST IN ESTABLISHED COMPANIES THAT HAVE PROVEN OPERATIONS

Equities also include ownership positions in income-producing real estate. The $694 million real estate portfolio, which represents 2.1 percent of total investments, contains nine regional shopping centres in British Columbia, Alberta, Saskatchewan, Manitoba and Ontario; three office buildings in downtown Vancouver and a two-building office complex in downtown Toronto; and industrial properties in mature business parks. The portfolio generated annualized cash flow of $ 76 million at the 1994 year end. The market value of these assets fell by one percent during 1994 as property values continued to decline.

Voting to increase shareholder value

As a shareholder in many corporations, we exercise ownership rights to maximize shareholder value for plan members. This is normally done through proxy voting. In 1994, we voted proxies in 306 Canadian public companies. Of these, we voted against 64 proposals that contravened our proxy voting guidelines and are not, in our view, in the best interests of shareholders.

Non-North American Equities by Country *
(as at December 31)



* includes effect of derivatives

Ron Wood and his wife Barbara have been welcoming guests to the Idlewood Farm Bed and Breakfast near Peterborough for almost five years. Ron retired in January 1995 after a 30-year teaching career.

The most common resolutions we opposed dealt with incentive compensation, most significantly the granting of share options to executives and directors, and shareholder rights plans. We generally oppose option plans that allow total dilution to exceed five percent of the outstanding shares, as well as self-perpetuating option plans and those that allow discounted purchase prices and interest-free loans. We also generally oppose shareholder rights plans.

OUR PARAMOUNT OBJECTIVE IS TO ACHIEVE LONG-TERM INVESTMENT RETURNS THAT EXCEED INFLATION BY 4.5 PERCENT

Fixed-income investments

Fixed-income securities, including debentures, bonds and money market investments, totalled $12.4 billion, or 37 percent of total investments, at the end of 1994. This compares with $18.1 billion, or 54 percent of total investments, a year earlier. The rate of return on total fixed-income securities was minus 3.1 percent, compared with a composite benchmark return of minus 8.9 percent.

The largest component in the portfolio is the non-marketable Ontario debentures, detailed on page 49. We have reduced the exposure to interest rate fluctuations on approximately 60 percent of this portfolio through the use of swaps and futures.

The marketable bond component of the portfolio consists of Government of Canada bonds as well as a growing position in global bonds. The fixed-income portfolio also contains $555 million of real-rate Canada bonds, with a real rate of return of 4.75 percent, and $ 98 million of index-linked mortgages. These investments are completely risk free with respect to inflation.

At year end, money market securities totalled $1.8 billion. Approximately 40 percent of these securities are Canadian treasury bills, with the remainder invested in other short-term money market instruments.

Performance measured against benchmarks

As we have already stated, our paramount objective is to achieve long-term investment returns that exceed inflation by 4.5 percent. If we achieve this objective over a long period of time, we will be successful in meeting our liabilities.

In the short term, another effective means of determining our investment success is to measure our results against investment industry averages. To the extent we exceed these averages, we are successful in adding value. For these comparisons, we use "benchmark portfolios," composed of comparable investments that represent the broad market averages.

In most cases the benchmarks we use consist of commonly accepted market indices, which are widely quoted and readily available from public sources. Returns from these benchmarks represent generally accepted overall standards of performance for markets such as the Toronto Stock Exchange.

Examples of these benchmarks include the TSE 300 for Canadian equities, the S&P 500 for US equities, the EAFE for equities in Europe, Australia and the Far East, and the Scotia MacLeod Canada bond index for bonds.

The standard against which we measure the total portfolio return is a composite benchmark produced by aggregating returns from each of the individual portfolios using our asset mix policy weights. The resulting benchmark return for the total portfolio represents an average return on the entire investment universe.

WHEN WE EXCEED THESE BENCHMARKS, WE ARE SUCCESSFUL IN ADDING VALUE

Change in net assets

The plan began 1994 with $33.7 billion in net assets available for benefits. As the accompanying table shows, revenues from investment income and plan contributions totalled $2 billion during the year. Total expenditures, 96 percent of which were pension payments to retired teachers, increased by $136 million to reach $1.2 billion.

As a result of these changes, net assets available for benefits grew by $783 million to total $34.5 billion at the 1994 year end.

Investment revenues decline

Investment income in 1994 totalled $528 million, compared with $5.9 billion the previous year. As discussed previously, the revenue decline reflected generally poor capital markets in 1994.

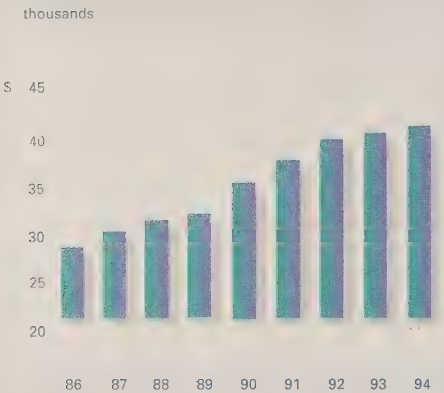
Rate of Return Compared to Benchmark

(%)	**1994**	benchmark
Fixed income	**-3.1%**	-8.9%
Equities	**6.8**	6.1
Canadian	**2.8**	1.3
US	**7.7**	7.3
Non-North American	**12.6**	14.3
Real estate	**5.4**	-1.7
Overall	**1.7%**	-0.3%

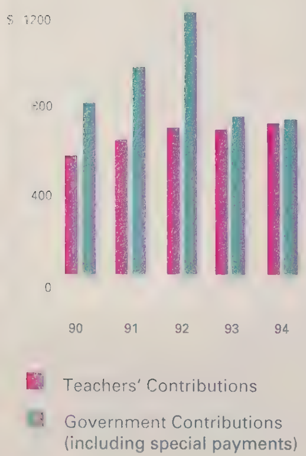
Changes in Net Assets

($ millions)	**1994**	1993
Revenues		
Investment income	**$ 528**	$5,907
Contributions	**1,436**	1,401
	1,964	7,308
Expenditures		
Benefits	**1,130**	1,001
Operating expenses		
Customer services	**26**	24
Investments	**25**	20
	1,181	1,045
Distribution of actuarial gain	**—**	325
Increase in Net Assets	**$ 783**	$5,938

Average 90-Factor Pension at Retirement



Contributions (millions)



> The average 90-factor pension for teachers retiring in 1994 was $40,300

Pension plan contributions

Ontario teachers contribute 7.3 percent of the first $34,900 of salary and 8.9 percent on remaining salary to the pension plan. These contributions are matched by the provincial government. Over two-thirds of the benefits will be funded by investment returns over the long term, the balance from contributions.

Contributions were largely unchanged in 1994 from the previous year at $1.4 billion, principally because teachers salaries were frozen under the government's social contract. These contributions included $60 million for past credit purchases in 1994, compared with $30 million in 1993.

At least every three years, an independent actuary addresses whether the contribution rate is at an appropriate level to fully fund the benefits promised to members. Predictable contribution rates for an extended period of time enable teachers to plan their personal finances.

In determining the appropriate contribution level, economic and non-economic assumptions are considered, such as salary projections, retirement rates, interest rates and inflation trends, over the long term.

The assumptions are deliberately conservative because it can take a long time to recover, for example, from a protracted period of poor investment results. This caution is underscored by the movement in the real rate of return earned by the median Canadian pension plan over the past 30 years — three percent in the 1960s, zero during the 1970s, and seven percent in the 1980s and early 1990s. The average real rate of return of this median fund was 3.75 percent, after allowing for inflation, for 1960 to 1993.

The current contribution rate was confirmed on January 1, 1993 and will next be reviewed on January 1, 1996.

Increased payments to retirees

The plan paid $1.1 billion in pensions during 1994, an increase from the $ 1 billion paid out in 1993. The increase principally reflected an increase in the number of teachers who retired during 1994 — 3,627 bringing to 46,000 the number of pensioners and their survivors receiving benefits. The higher number of pensioners in 1994 resulted partly from early retirement incentives offered by school boards under the Ontario government's social contract.

The pension payments also reflected a 1.9 percent cost-of-living adjustment for pensioners. The plan uses an averaging method for calculating the inflation adjustment rates for pensions, basically to avoid sudden increases or decreases in the year-over-year Consumer Price Index rate. As a result, the inflation adjustment for 1995 is 0.6 percent, compared with 0.2 percent if calculated year-over-year.

Operating expenses

The costs of managing investments in the pension fund and administering the pension plan are small relative to the asset base and annual volume of financial transactions. Nevertheless, these operating expenses are important and consequently are discussed in detail in the President's Report on page 11.

PENSIONS INCREASED BY 1.9% IN 1994 AND 0.6% IN 1995

Managing assets and liabilities

When we invest the plan's assets, we are conscious of the plan's liabilities and attempt to achieve a surplus of assets over liabilities as a cushion against unforeseen events. The best measure of progress towards achieving a surplus position is to compare the estimated value of liabilities with the market value of assets in our financial statements. This provides a snapshot of the plan's financial condition at each year end.

Progress in reducing the deficiency

The plan commenced 1994 with accrued pension benefits of $34.0 billion. By the end of the year, the value of accrued pension benefits had increased to $36.8 billion. The actuarial assumptions used in determining accrued pension benefits reflect management's best estimate of expected long-term trends in investment returns, salaries, the rate of inflation and other demographic factors. The main assumptions used are set out in note 4 to the financial statements.

In 1994, the actuarial value of net assets available for benefits rose from $30.8 billion to $34.2 billion. As a result, the plan ended the year with a deficiency of $2.6 billion, compared with $3.2 billion a year earlier. The reduction in the deficiency mainly reflects favourable experience for salaries and inflation compared to the long-term actuarial assumptions.

Accrued Pension Benefits ($ billions)

	1994	1993
Accrued pension benefits, beginning of year	**$34.0**	$30.8
Interest on accrued benefits	**3.0**	2.9
Benefits earned	**1.3**	1.2
Benefits paid	**(1.1)**	(1.0)
	37.2	33.9
Changes in actuarial assumptions	**0.2**	0.7
Experience gains	**(0.6)**	(0.6)
Accrued pension benefits, end of year	**$36.8**	$34.0

Change in Deficiency ($ billions)

	Actuarial Value of Net Assets	Accrued Pension Benefits	Deficiency	% Deficiency
1990	$20.8	$24.4	$3.6	14.8%
1991	23.8	27.5	3.7	13.5
1992	27.4	30.8	3.4	11.0
1993	30.8	34.0	3.2	9.4
1994	34.2	36.8	2.6	7.1

Funding Valuation Results ($ billions)

January 1	1993
Value of assets at valuation date	$29.4
Present value of future contributions	14.3
Present value of future special payments from Province	8.4
Total assets	52.1
Present value of future benefits	50.6
Gain	$ 1.5

"ACCRUED PENSION BENEFITS" IS THE MONEY NEEDED TO PAY THE FUTURE PENSIONS OF ALL CURRENT MEMBERS

The plan's deficiency was 7.1 percent of accrued pension benefits at the end of 1994 compared with 9.4 percent at the end of 1993. The deficiency has been reduced over the past four years from a peak of $3.7 billion at the 1991 year-end, as shown in the accompanying table. This reduction reflects changes in assumptions, low inflation and wage increases. It also reflects the special payments made by the province in 1990, 1991 and 1992.

Funding valuations

As indicated previously, we obtain triennial actuarial valuations in accordance with the *Pension Benefits Act* to determine the contribution rate payable by members and the government. These valuations (called "funding valuations") are different from the annual "best estimate" actuarial valuations required for purposes of preparing the annual financial statements of the plan. The funding valuations use more conservative actuarial assumptions than the "best estimate" valuations; in addition, the funding valuations take into consideration future benefits and contributions, whereas the "best estimate" valuations reflect only benefits earned and the value of the assets on the date of the valuation.

The initial funding valuation of the plan was prepared on January 1, 1990 and the second valuation on January 1, 1993. The initial unfunded liability of $7.8 billion came about in large part because plan contributions and investment income were insufficient to support promised benefits, particularly after 1976 when pensions were indexed to the Consumer Price Index. During the late 1970s and most of the 1980s, high inflation rates increased the value of benefits at a much faster rate than the increase in the assets, leading to the large unfunded liability.

Special payments over 40 years

The province has agreed to pay the initial unfunded liability of $7.8 billion through a series of special payments over the 40-year period from 1990 to 2029. These payments are recorded in the financial statements as they are received. In 1990, 1991 and 1992, the plan received $895 million in special payments.

Due to favourable investment experience in the years 1990 to 1992, as well as revised assumptions about the future, such as lower salary and inflation rates, the January 1, 1993 funding valuation revealed that the plan had an actuarial gain of $1.5 billion. Under an agreement between the government and the Ontario Teachers' Federation, the government is taking this gain by eliminating $1.2 billion of special payments due between January 1993 and July 1996 and by reducing contributions to the plan by $325 million in the years 1994 and 1995.

The province will recommence making the payments in August 1996. By then, the present value of future payments will be $9.5 billion if all the actuarial assumptions are realized.

The present value of future special payments will rise to an estimated peak of $13.3 billion by 2013 before declining and being eliminated as originally scheduled by 2029. The increase in the present value of the remaining special payments will be less than the expected growth in liabilities and members' payroll over the next 20 years. Even in the peak year of 2013, the present value of special payments will be a lower percentage of both total liabilities and members' payroll than is the case today.

> THE 1993 FUNDING VALUATION REVEALED THAT THE PLAN HAD AN ACTUARIAL GAIN OF $1.5 BILLION

Future issues and trends

Federal law requires pension plans to invest at least 80 percent of their assets in Canada, creating a large exposure to Canadian economic and political events. Approximately 90 percent of our assets are in Canada. Through the use of derivatives, over 30 percent of our returns come from investments outside the country. Consequently, a significant portion of investment income is exposed to international events.

Government deficits

The Canadian economy has performed relatively well in recent years, and according to some forecasts has an encouraging outlook. However, the ability of the federal and provincial governments to deal with budget deficits and the accumulated debt has a direct impact on investor confidence in Canada and the performance of our capital markets.

Orderly and committed deficit reduction programs by the federal and provincial governments will do much to quieten international nervousness and help to shore up economic growth.

Since retiring in 1981, Hugh Fullerton has pursued his passion for carving birds from wood. Hugh started his hobby years ago and has carved hundreds of rough, working decoys. Now he has the time to make them works of art.

This in turn would contribute more positive investment returns to the Ontario Teachers' Pension Plan.

Emphasis on corporate governance issues

The pension plan is now a major investor in many Canadian corporations. In some cases, we are among the two or three largest minority shareholders.

The rapid expansion of our corporate ownership brings with it the duty to exercise ownership rights in a pro-active and effective manner. This means we must pay closer attention to corporate governance matters to ensure that management is committed to enhancing shareholder value, and thus income returns to the pension plan.

BOARDS OF DIRECTORS SHOULD BE THE ADVOCATES OF SHAREHOLDERS

Corporate governance will, we believe, continue to emerge as an important issue in establishing a clearer definition of the relationship between investors as owners, boards of directors as the advocates of shareholders, and managers as corporate employees accountable to the owners. We intend to remain in the forefront of corporate governance issues in Canada and in other jurisdictions where we have acquired corporate equity.

Outlook for pension liabilities

The 17,000 teachers projected to retire in the next five years is a much higher number than the 12,000 who retired in the past five years. As the members hired to teach the "baby boom" generation enter retirement in the next few years, we anticipate strong growth in the demand for pensions. However, we believe the pension plan is in a sound funding position to meet these increased liabilities. We are moving confidently toward our objective of converting the current year-end deficiency into a surplus within the next several years.

Deloitte & Touche

We have audited the statement of net assets available for benefits and accrued pension benefits and deficiency of the Ontario Teachers' Pension Plan as at December 31, 1994 and the statements of changes in net assets available for benefits, changes in accrued pension benefits and changes in deficiency for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits and accrued pension benefits and deficiency of the Plan as at December 31, 1994 and the changes in its net assets available for benefits, accrued pension benefits and deficiency for the year then ended in accordance with generally accepted accounting principles.

Deloitte & Touche

Chartered Accountants
Toronto, Canada
March 10, 1995

WILLIAM M.
MERCER
LIMITED

William M. Mercer Limited was retained by the Ontario Teachers' Pension Plan Board (the "Board") to perform an actuarial valuation of the assets and the going concern liabilities of the Ontario Teachers' Pension Plan (the "Plan") as at December 31, 1994, for inclusion in the Plan's financial statements. As part of the valuation, we examined the Plan's recent experience with respect to the non-economic assumptions and presented our findings to the Board. In addition, we provided the Board with statistical, survey and other information used to develop their long-term economic assumptions.

The valuation of the Plan's actuarial liabilities was based on:

- membership data provided by the Ontario Teachers' Pension Plan Board (the Board) as at December 31, 1993;
- data provided by the Board regarding 1994 purchases of credit;
- methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements;
- assumptions about future events (for example, future rates of inflation and future rates of return on the pension fund) which have been communicated to us as the Board's best estimate of these events; and
- information provided by the Education Relations Commission on negotiated wage settlements in the 1993/94 and 1994/95 school years.

The objective of the financial statements is to fairly represent the financial position of the Plan on December 31, 1994 as a going concern. This is different from the statutory valuation (the actuarial valuation required by the *Teachers' Pension Act,* and the *Pension Benefits Act*), which uses actuarial methods prescribed by the *Teachers' Pension Act* and cautious assumptions about future events to establish a prudent level for future contributions.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements represent the Board's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will inevitably differ, perhaps significantly, from the actuarial assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations, and will affect the financial position of the Plan, and the contributions required to fund it, at that time.

We have tested the data for reasonableness and consistency, and we believe it to be sufficient and reliable for the purposes of the valuation. We also believe that the methods employed in the valuation and the assumptions are, in aggregate, appropriate for the purposes of the valuation. Our opinions have been given, and our valuation has been performed, in accordance with accepted actuarial practice.

Lester J. Wong, F.C.I.A.
February 8, 1995

Malcolm P. Hamilton, F.C.I.A.

The financial statements of the Ontario Teachers' Pension Plan have been prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgements. The accounting policies followed in the preparation of these financial statements conform with generally accepted accounting principles. Financial information presented throughout this annual report is consistent with the financial statements.

Systems of internal control and supporting procedures are maintained to provide assurance that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, a code of conduct, the establishment of an organizational structure that provides a well defined division of responsibilities and accountability for performance, and the communication of policies and guidelines through the organization. Internal controls are reviewed and evaluated by internal audit programs which are subject to scrutiny by the external auditors.

Ultimate responsibility for the financial statements rests with the Board of Directors. The board is assisted in its responsibilities by the Audit and Actuarial Committee, consisting of five directors who are not officers or employees of the plan administrator. In addition, the committee reviews the recommendations of the internal and external auditors for improvements in internal control and the action of management to implement such recommendations. In carrying out its duties and responsibilities, the committee meets regularly with management and with both the external and internal auditors to review the scope and timing of their respective audits, to review their findings and to satisfy itself that their responsibilities have been properly discharged. This committee reviews the financial statements and recommends them for approval by the board.

The plan's external auditors, Deloitte & Touche, have conducted an independent examination of the financial statements in accordance with generally accepted auditing standards, performing such tests and other procedures as they consider necessary to express the opinion in their Report to the Administrator. The external auditors have full and unrestricted access to the Audit and Actuarial Committee to discuss their audit and related findings as to the integrity of the plan's financial reporting and the adequacy of internal control systems.

C. Lamoureux

Claude Lamoureux
President and
Chief Executive Officer

Andrew Jones

Andrew Jones
Vice-President, Finance

STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS AND ACCRUED PENSION BENEFITS AND DEFICIENCY

as at December 31, 1994

($ Millions)	**1994**	1993
NET ASSETS AVAILABLE FOR BENEFITS		
Assets		
Investments (note 2)	**$33,739**	$33,270
Receivable from Province of Ontario (note 3)	**1,338**	1,362
Cash	**34**	32
Fixed assets	**2**	4
	35,113	34,668
Liabilities		
Payable to Province of Ontario (note 6)	**125**	325
Payable to brokers	**480**	605
Accounts payable and accrued liabilities	**14**	27
	619	957
Net assets available for benefits	**34,494**	33,711
Actuarial asset value adjustment (note 4)	**(252)**	(2,947)
Actuarial value of net assets available for benefits	**$34,242**	$30,764
ACCRUED PENSION BENEFITS AND DEFICIENCY		
Accrued pension benefits	**$36,848**	$33,998
Deficiency	**(2,606)**	(3,234)
Accrued pension benefits and deficiency	**$34,242**	$30,764

On behalf of the Board:

Chairperson

Board Member

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

for the year ended December 31, 1994

($ Millions)	**1994**	1993
Investment operations		
Investment income (note 5)	**$ 528**	$ 5,907
Investment expenses (note 9)	**(25)**	(20)
Net investment operations	**503**	5,887
Customer service operations		
Contributions (note 7)	**1,436**	1,401
Benefits (note 8)	**(1,130)**	(1,001)
Customer service expenses (note 9)	**(26)**	(24)
Net customer service operations	**280**	376
Other		
Distribution of actuarial gain (note 6)	**—**	(325)
Increase in net assets	**783**	5,938
Net assets available for benefits, beginning of year	**33,711**	27,773
Net assets available for benefits, end of year	**$34,494**	$33,711

STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS

for the year ended December 31, 1994

($ Millions)	**1994**	1993
Accrued pension benefits, beginning of year	**$33,998**	$30,781
Increase in accrued pension benefits		
Interest on accrued pension benefits	**3,000**	2,943
Benefits earned (note 4)	**1,292**	1,188
Changes in actuarial assumptions (note 4)	**246**	733
	4,538	4,864
Decrease in accrued pension benefits		
Benefits paid (note 8)	**1,130**	1,001
Experience gains (note 4)	**558**	646
	1,688	1,647
Net increase in accrued pension benefits	**2,850**	3,217
Accrued pension benefits, end of year	**$36,848**	$33,998

STATEMENT OF CHANGES IN DEFICIENCY

for the year ended December 31, 1994

($ Millions)	**1994**	1993
Deficiency, beginning of year	**$(3,234)**	$(3,422)
Increase in net assets available for benefits	**783**	5,938
Change in actuarial asset value adjustment (note 4)	**2,695**	(2,533)
Increase in actuarial value of net assets available for benefits	**3,478**	3,405
Net increase in accrued pension benefits	**(2,850)**	(3,217)
Deficiency, end of year	**$(2,606)**	$(3,234)

for the year ended December 31, 1994

DESCRIPTION OF PLAN

The following description of the Ontario Teachers' Pension Plan (the Plan) is a summary only. For more complete information, reference should be made to the *Teachers' Pension Act* as amended.

(a) General The Plan is a contributory defined benefit pension plan co-sponsored by the Province of Ontario (the Province) and Plan members. Contributions are made by active members of the Plan and matched by the Province and designated private schools and organizations. The Plan is registered with the Pension Commission of Ontario (registration number C008450).

(b) Funding Plan benefits are funded by contributions and investment earnings. The determination of the value of the benefits and required contributions is made on the basis of periodic actuarial valuations (see note 6).

(c) Retirement pensions A retirement pension is available based on the number of years of credited service, best five-year average salary and age of the member at retirement. A member is eligible for a reduced retirement pension from age 55. An unreduced pension is available at age 65 or at any age if the sum of a member's age and qualifying service equals 90.

(d) Disability pensions A disability pension is available at any age to a disabled member with a minimum of 10 years of credited service. The type of disability pension is determined by the extent of the disability.

(e) Death benefits Death benefits are available on the death of a member and may be available on the death of a pensioner. The benefit may take the form of a survivor pension, a lump sum payment or both.

(f) Additional credited service Members can obtain additional credited service in the Plan for certain absences or transfers from other plans.

(g) Withdrawals from the Plan Subject to the lock-in provisions, withdrawal refunds, transfers and commuted value transfers are available when a member ceases to be employed in education prior to qualifying for an immediate pension.

for the year ended December 31, 1994

(h) Income taxes The Plan is a Registered Pension Plan as defined in the *Income Tax Act* and, consequently, is not subject to income taxes. The Plan's registration number is 0345785.

(i) Escalation of benefits Pension benefits are adjusted annually for inflation at 100 percent of the Consumer Price Index, subject to a limit of 8 percent in any one year with any excess carried forward.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation These financial statements present the financial position and operations of the Plan and are prepared in accordance with generally accepted accounting principles.

(b) Investments Investments are recorded as of the trade date and are stated at market value.

Province of Ontario Debentures (the Debentures), which are not marketable, are stated at estimated market values calculated by discounting the Debenture cash flows based on year-end market yields of comparable securities. Money market, publicly traded bonds and equity securities are valued at year-end market prices. Other investments for which market quotations are not available such as real estate, mortgages and private placements are valued on a current market yield or appraised basis.

Interest and dividend income has been accrued to the year-end date.

The change in the difference between market value and the cost of investments at the beginning and end of each year represents the unrealized gain (loss) and is included in investment income.

(c) Derivative contracts Interest rate and foreign currency futures, options, swaps and debt to equity derivative contracts are recorded at market value with the resulting gain or loss being recognized in unrealized investment income.

Gains or losses on interest rate and foreign currency futures, options, swaps and debt to equity derivative contracts sold or closed out during the year are included in realized investment income.

(d) Accrued pension benefits Accrued pension benefits and changes therein during the year are based on an actuarial valuation prepared by a firm of independent actuaries. The valuation is made as at the start of the year and then extrapolated to year end. It uses the projected benefit method prorated on service and management's best estimate of future economic events (see note 4).

for the year ended December 31, 1994

(e) Foreign currency translation Transactions denominated in foreign currencies are translated into Canadian dollars at the rates of exchange prevailing at the dates of the transactions. The market value of investments and cash balances denominated in foreign currencies are translated at the rates in effect at year end. The resulting gain or loss from changes in these rates is included in unrealized investment income.

(f) Contributions and benefits Contributions are recorded on the accrual basis except for special payments from the Province which are recorded in the year in which they are received (see note 6).

Benefits are recorded on the accrual basis.

2. INVESTMENTS

The investment objectives of the Plan are to maximize investment returns and to protect the pension benefits of the Plan members. The strategy employed to achieve these objectives is to invest cash flow from contributions, maturing Debentures and investment returns into a diversified pool of assets such as Canadian and foreign equities, money market securities, government bonds and real estate.

Until January 1, 1990, the Plan had been restricted to investing in non-marketable Debentures which must be held to maturity. The Plan's investment in these Debentures, amounting to $17.2 billion (1993 – $19.4 billion), has interest rates and a maturity profile that exposes the Plan to significant market value fluctuations. To manage this exposure in a manner consistent with the investment objectives, the Plan has used interest rate, foreign currency and equity futures, and interest rate and equity swaps and options (collectively called the derivative contracts) during the year. These derivative contracts allow the Plan to retain the non-marketable Debentures while achieving its objectives of increasing asset diversification and reducing interest rate risk. Through these derivative contracts, the investment returns from the Debentures are exchanged for returns equivalent to those which would be earned by investing directly in money market and equity securities, as described in note 2b.

for the year ended December 31, 1994

a) The schedule below summarizes the market value and cost of the Plan's investments as at December 31, 1994 and 1993:

($ Millions)	1994		1993	
	Market Value	Cost	Market Value	Cost
Fixed income				
Debentures	**$17,177**	**$14,977**	$19,374	$15,130
Money market securities	**1,818**	**1,809**	1,269	1,264
Bonds				
Canadian	**771**	**780**	793	708
Foreign	**252**	**243**	289	290
Mortgages	**98**	**98**	100	98
	20,116	**17,907**	21,825	17,490
Equities				
Canadian	**9,334**	**8,542**	7,374	6,272
Foreign	**3,595**	**2,415**	3,463	2,391
	12,929	**10,957**	10,837	8,663
Real estate	**694**	**769**	608	668
	$33,739	**$29,633**	$33,270	$26,821

Included above is accrued interest and dividends of $380 million (1993 – $457 million).

Investment in real estate, which is held in a special purpose subsidiary, is net of indebtedness of $221 million (1993 – $115 million).

b) The schedule below summarizes the "notional" principal amounts of the derivative contracts outstanding at the year end. The principal amounts are termed notional because they are not usually exchanged themselves, but serve as the basis upon which the payments of returns and the market value of the contracts are determined. The main types of contracts used by the Plan are swaps, futures and options.

for the year ended December 31, 1994

Notional Principal of Outstanding Derivative Contracts at December 31, 1994 and 1993:

($ Millions)	**1994**	1993
Swap Contracts		
Fixed interest rate	**$(9,538)**	$(5,160)
Floating interest rate	**1,809**	1,452
Equity	**7,729**	3,708
	$ —	$ —
Futures Contracts		
Interest rate	**$ 1,085**	$(1,926)
Equity	**—**	—
Currency	**(16)**	—
	$ 1,069	$(1,926)
Options Contracts		
Interest rate	**$ 1,759**	$ 584
Equity	**—**	(199)
	$ 1,759	$ 385

i) Swap Contracts

Under swap contracts, the Plan agrees to pay a fixed rate of interest on a notional principal amount of Debentures and in return, the Plan receives income based upon the yield of an equivalent notional amount of money market securities or equities.

Swap contracts outstanding at December 31, 1994 have been used to convert the yield on a notional amount of Debentures of $9.5 billion ("fixed interest rate swaps") into:

i) the yield on a notional amount of $1.8 billion of money market securities ("floating interest rate swaps"), and

ii) the return based on a notional amount of $7.7 billion of equity indices ("equity swaps").

ii) Futures Contracts

Futures contracts are agreements either to buy or to sell notional amounts of money market securities, bonds, equity securities or foreign currencies at predetermined future dates and prices. As a result of entering into these contracts, returns are generated that are equivalent to the gain or loss

for the year ended December 31, 1994

that would arise if the securities or foreign currencies had been bought or sold directly at the future price. These contracts enable the Plan to change its exposure to the effects of changing interest rates on the Debentures, while retaining the Debentures themselves.

Interest rate futures contracts have been entered into to buy a notional amount of $1.1 billion (1993 – to sell $1.9 billion) of fixed income securities which, together with the investment in Debentures, provide the Plan with returns based on short term interest rates and reduce the Plan's sensitivity to interest rate fluctuations.

iii) **Option Contracts**

Option contracts are agreements in which the right, but not the obligation, is acquired by the option purchaser from the option writer either to buy or sell on or within a specified time, a predetermined amount of a financial instrument at a stated price.

Option contracts permit the Plan, in exchange for money received or paid (the premium), to modify the exposure to changing interest rates or stock prices above or below a predetermined level. The Plan uses option contracts to either enhance the rate of return or to protect the Plan from losses.

c) The effective investment position of the Plan, after giving effect to the swap contracts on the Plan's investments, is as follows at December 31, 1994 and 1993:

($ Millions)	**1994**		1993	
	At Market Value (per Note 2a)	**Effective Investment At Market Value**	At Market Value (per Note 2a)	Effective Investment At Market Value
Fixed income	**$20,116**	**$12,387**	$21,825	$18,117
Equities				
Canadian	**9,334**	**9,943**	7,374	7,510
Foreign	**3,595**	**10,715**	3,463	7,035
Real estate	**694**	**694**	608	608
	$33,739	**$33,739**	$33,270	$33,270

for the year ended December 31, 1994

3. RECEIVABLE FROM PROVINCE OF ONTARIO

The receivable from the Province consists of required matching contributions and interest thereon.

($ Millions)	**1994**	1993
Contributions receivable	**$1,248**	$1,248
Accrued interest	**90**	114
	$1,338	$1,362

The receivable from the Province is expected to be collected as follows: $690 million in 1995 and $648 million in 1996.

4. ACCRUED PENSION BENEFITS

a) The actuarial assumptions used in determining accrued pension benefits reflect management's best estimate of expected long-term economic trends as follows:

($ Millions)	**1994**	1993
Asset rate of return	**8.75%**	8.75%
Salary escalation rate	**5.00%**	5.00%
Inflation rate	**4.00%**	4.00%

Changes to actuarial assumptions in 1994, principally because of decreasing mortality rates, increased accrued pension benefits by $246 million. In 1993, changes to actuarial assumptions, primarily a decrease in the asset rate of return, increased accrued pension benefits by $733 million.

Experience gains of $558 million (1993 – $646 million) arose from differences between the actuarial assumptions and actual results and relate primarily to favourable experience for salary and inflation.

b) The actuarial value of net assets available for benefits is determined by reference to long-term market trends consistent with assumptions underlying the valuation of accrued pension benefits. The adjustment represents the difference between the actual and management's best estimate of return on the fund amortized over five years. Using this adjustment, market value remains the underlying basis for asset valuation, but fluctuations are averaged over a five year period.

The year over year change in the actuarial asset value adjustment is reflected in the Statement of Changes in Deficiency.

for the year ended December 31, 1994

5. INVESTMENT INCOME

($ Millions)	**1994**	1993
a) Interest income		
Debentures	**$1,116**	$1,494
Money market securities	**89**	69
Bonds		
Canadian	**41**	66
Foreign	**16**	3
Mortgages	**6**	8
	1,268	1,640
Dividend income		
Canadian equities	**229**	149
Foreign equities	**133**	68
	362	217
Real estate	**49**	43
	1,679	1,900
Gain (loss) on investments	**(1,151)**	4,007
	$ 528	$5,907

Interest income from debentures is net of interest incurred on swap contracts (see Note 2b(i)).

Loss on investments for 1994 includes unrealized losses of $2,338 million (1993 – unrealized gains of $3,971 million).

b) Investment income by asset class, after giving effect to the derivative contracts and allocating the realized and unrealized gains and (losses), is as follows:

($ Millions)	**1994**	1993
Fixed income	**$(593)**	$3,292
Canadian equities	**189**	1,325
Foreign equities	**898**	1,288
Real estate	**34**	2
	$ 528	$5,907

for the year ended December 31, 1994

6. FUNDING POLICY

Statutory actuarial valuations are prepared periodically in accordance with the *Teachers' Pension Act* to determine the funding of the Plan. Active members are currently required to contribute 8.9 per cent of their salaries to the Plan with matching contributions from the Province and other employers.

The assumptions and actuarial methods used to determine statutory pension benefits are different than those used to calculate the amounts disclosed in these financial statements. Due to its conservative approach, the statutory valuation results in a higher estimate of accrued pension benefits and deficiency.

The initial statutory valuation of the Plan, prepared by William M. Mercer Limited as at January 1, 1990 disclosed a deficiency of $7.8 billion. This deficiency is the responsibility of the Province and is being paid off with interest by a series of special payments over the 40 year period which commenced January 1, 1990. The last statutory valuation as at January 1, 1993, reflecting lower interest rates and inflation, disclosed an actuarial gain of $1.5 billion over the three years since the initial valuation. This valuation indicated a deficiency of $6.9 billion, which is $1.5 billion lower than the $8.4 billion that was expected. Pursuant to the *Teachers' Pension Act* and by agreement with the OTF, the Province exercised its right to apply the gain as follows:

- Commencing January 1, 1993, $1.2 billion is being applied to eliminate special payments until August 1996; and
- $325 million has been applied to reduce other scheduled payments from the Province to the Plan in 1994 and 1995.

Since no special payments will be made until August 1996, the deficiency at that date would be $9.5 billion if all the actuarial assumptions are realized.

for the year ended December 31, 1994

7. CONTRIBUTIONS

($ Millions)	**1994**	1993
Members		
Current service	**$ 614**	$ 617
Optional credit	**60**	30
Repayments of refunds	**36**	16
	710	663
Province of Ontario		
Current service	**606**	608
Optional credit	**23**	11
Interest	**66**	84
	695	703
Other employers	**9**	9
Transfers from other pension plans	**22**	26
	$1,436	$1,401

8. BENEFITS

($ Millions)	**1994**	1993
Retirement pensions	**$ 995**	$ 888
Disability pensions	**25**	24
Death benefits	**65**	61
Refunds	**14**	10
Transfers to other plans	**31**	18
	$1,130	$1,001

for the year ended December 31, 1994

9. ADMINISTRATIVE EXPENSES

(a) Investment Expenses

($ Millions)	**1994**	1993
Salaries and benefits	**$10.4**	$ 7.0
Investment management fees	**6.7**	5.7
Custodial and banking fees	**2.9**	3.1
Premises and equipment	**1.6**	2.0
Professional consulting services	**1.7**	0.8
Communication and travel	**0.6**	0.5
Audit fees	**0.2**	0.2
All other	**0.8**	0.8
	$24.9	$20.1

(b) Customer Service Expenses

($ Millions)	**1994**	1993
Salaries and benefits	**$13.3**	$12.1
Premises and equipment	**7.5**	7.7
Professional consulting services	**2.6**	2.3
Communication and travel	**1.5**	1.3
Board and committee remuneration	**0.1**	0.1
Audit fees	**0.2**	0.2
All other	**0.6**	0.5
	$25.8	$24.2

for the year ended December 31, 1994

(c) Management Compensation

The compensation table represents full disclosure of the base, incentive and other compensation earned in 1992, 1993 and 1994 by the Chief Executive Officer and the four other most highly compensated executive officers.

Name and Principal Position	Year	Salary	Annual Incentive Bonus	Other Annual Compensation	Group Term Life Insurance	Long-term Incentive Plan[4]
Claude Lamoureux	1994	$286,606	$130,300	$34,600[(1)]	$813	—
President and CEO	1993	276,534	127,900	34,600[(1)]	751	—
	1992	262,905	112,000	34,600[(1)]	681	—
Robert Bertram	1994	249,363	80,400	33,000[(2)]	707	—
Senior V.P.	1993	243,354	66,400	33,000[(2)]	657	—
Investments	1992	233,027	78,000	33,000[(2)]	605	—
George Engman	1994	144,423	188,900	12,500[(3)]	418	—
V.P. Merchant Banking	1993	141,850	97,600	12,500[(3)]	390	—
Group	1992	133,311	111,843	12,500[(3)]	351	—
Patricia Murphy	1994	151,974	124,600	N/A	431	—
V.P. Fixed Income	1993	150,391	82,700	N/A	406	—
	1992	142,434	104,454	N/A	377	—
Brian Muzyk	1994	145,038	119,900	N/A	411	—
V.P. Real Estate	1993	141,441	69,100	N/A	382	—
	1992	131,127	102,359	N/A	348	—

(1) Mortgage assistance for relocation $25,000 per annum. Automobile allowance $9,600 per annum.

(2) Mortgage assistance for relocation $25,000 per annum. Automobile allowance $8,000 per annum.

(3) Allowance to compensate for forfeited external directorship.

(4) Long-term incentive programs were established for the Chief Executive Officer and for executive employees beginning in January 1992. Payouts will begin in 1996. These programs are designed to ensure the board's competitiveness to attract and retain senior professionals.

The long-term incentive plan measures the amount total fund performance exceeds a composite benchmark over a four-year period. The benchmark is established from market indices for investment portfolio performance using the board's annual asset-mix target weights.

Target payouts for the long-term plan were established at 30 percent of base salary for Investment Vice-Presidents and 45 percent of base salary for the Senior Vice-President and the Chief Executive Officer. To achieve these payout levels, the total fund performance would have to consistently exceed the benchmark by 50 basis points, annually. Payouts will rise or fall in accordance with fund performance. At December 31, 1994, performance for the first cycle was tracking at 1.7 times target. Target payouts were doubled for the initial performance cycle (January 1992 – December 1995) in recognition of the time delay required to develop a long-term plan and the subsequent vesting period before an initial payment is made under this plan.

SCHEDULE OF PROVINCE OF ONTARIO DEBENTURES

as at December 31, 1994

($ Millions)

Maturity Date	Coupon %	Market Value	Cost
1995 – 1999	7.00 – 7.99	$ 116	$ 120
	8.00 – 8.99	408	418
	9.00 – 9.99	879	867
	10.00 – 10.99	200	198
	11.00 – 11.99	64	64
	12.00 – 12.99	134	121
	14.00 – 14.99	122	107
	16.00 – 16.99	190	165
		2,113	2,060
2000 – 2004	8.00 – 8.99	39	40
	9.00 – 9.99	812	805
	10.00 – 10.99	518	502
	11.00 – 11.99	768	717
	12.00 – 12.99	941	786
	13.00 – 13.99	1,010	837
		4,088	3,687
2005 – 2009	10.00 – 10.99	2,130	1,993
	11.00 – 11.99	2,803	2,505
	12.00 – 12.99	1,000	840
	13.00 – 13.99	94	75
	14.00 – 14.99	436	335
	15.00 – 15.99	1,339	945
		7,802	6,693
2010 – 2012	10.00 – 10.99	1,177	1,113
	11.00 – 11.99	1,237	1,095
		2,414	2,208
Accrued Interest		477	477
		$16,894	$15,125

INVESTMENTS GREATER THAN $30 MILLION IN CORPORATE SHARES AND CONVERTIBLE DEBENTURES

as at December 31, 1994

Enterprises	Number of Shares *(Millions)*	Market Value *($ Millions)*
Corporate Shares		
BCE Inc.	11.0	$494.8
Royal Bank of Canada, The	12.6	354.5
Canadian Imperial Bank of Commerce	9.8	331.0
Toronto-Dominion Bank, The	14.5	308.3
Barrick Gold Corporation	9.1	286.3
Seagram Company Ltd., The	6.1	256.4
Placer Dome Inc.	7.9	238.6
Canadian Pacific Limited	10.9	225.9
Northern Telecom Limited	4.8	222.9
Bank of Montreal	7.9	205.3
Bank of Nova Scotia, The	7.1	188.7
Alcan Aluminum Limited	5.2	183.8
Nova Corporation	13.4	174.5
Thomson Corporation, The	9.7	167.5
TransCanada PipeLines Limited	7.7	131.4
Imasco Limited	3.1	121.5
Imperial Oil Limited	2.5	116.0
TransAlta Corporation	7.9	115.1
Renaissance Energy Ltd.	4.2	113.9
Laidlaw Inc.	9.8	110.3
Power Corporation of Canada	5.6	108.0
Moore Corporation Limited	3.8	102.0
Rogers Communications Inc.	5.4	100.9
Inco Limited	2.5	100.2
MacMillan Bloedel Limited	5.6	98.5
Labatt, John Limited	5.3	93.4
Molson Companies Limited, The	4.7	92.5
Talisman Energy Inc.	3.9	90.5
Bombardier Inc.	3.6	89.7
Canadian Tire Corporation Limited	6.2	77.7
Canadian Occidental Petroleum Ltd.	2.3	73.9
Teck Corporation	2.9	73.6
National Bank of Canada	7.7	73.4
Noranda Inc.	2.8	73.1
Methanex Corporation	3.9	71.1
IPSCO Inc.	2.6	66.9
Metall Mining Corporation	5.5	66.5
Co-Steel Inc.	2.2	64.6
Fletcher Challenge Canada Limited	3.5	61.8

Enterprises	Par Value ($ Millions)	Number of Shares (Millions)	Market Value ($ Millions)
Hudson's Bay Company		2.4	60.7
Westcoast Energy Inc.		2.7	59.2
IPL Energy Inc.		2.0	58.2
Echo Bay Mines Ltd.		3.7	56.1
Newbridge Networks Corporation		1.0	56.1
Ranger Oil Limited		6.7	56.0
Telus Corporation		3.5	55.5
Maple Leaf Foods Inc.		4.5	55.2
Dofasco Inc.		2.8	53.5
Québecor inc.		2.9	51.1
Oshawa Group Limited, The		2.7	50.8
Cambridge Shopping Centres Ltd.		4.1	50.0
Alberta Energy Company Ltd.		2.7	48.8
Home Oil Company Limited		3.0	43.9
Hitachi Ltd.		3.1	43.1
Power Financial Corporation		1.5	41.4
Horsham Corporation, The		2.3	41.2
Torstar Corporation		1.8	40.7
Elf Aquitaine		0.4	40.1
Semi-Tech Corporation		4.1	39.4
Ault Foods Limited		2.3	38.9
Avenor Inc.		1.4	38.9
Southam Inc.		2.4	36.7
Bayer AG		0.1	35.8
Nova Scotia Power Inc.		3.2	35.1
Dominion Textile Inc.		4.1	32.8
Magna International Inc.		0.6	32.5
Loblaw Companies Limited		1.3	32.0
BC Gas Inc.		2.3	31.1
Canon Inc.		1.3	30.2
ABN Amro Holdings		0.6	30.1
Convertible Debentures			
Power Financial Corporation 8.0% Due Apr. 30, 2014	171.0		201.8
Telecom Telesystem LTD. 5.44% Due Nov. 18, 2002	21.3		31.4

for the year ended December 31

($ Millions)	**1994**	1993	1992	1991	1990
CHANGES IN NET ASSETS					
Revenues					
Investment Income	**528**	5,907	2,145	3,843	1,031
Contributions					
Members	**674**	647	655	597	526
Province of Ontario/employers	**704**	712	740	663	587
– special payments	**—**	—	438	270	187
Repayment of refunds and transfers	**58**	42	56	54	33
Total Revenues	**1,964**	7,308	4,034	5,427	2,364
Expenditures					
Benefits paid	**1,130**	1001	921	829	760
Administrative expenses	**51**	44	37	25	20
Distribution of gain	**—**	325	—	—	—
Total Expenditures	**1,181**	1,370	958	854	780
INCREASE IN NET ASSETS	**783**	5,938	3,076	4,573	1,584
NET ASSETS					
Investments					
Fixed Income	**12,387**	18,117	19,464	19,215	18,129
Equities – Canadian	**9,943**	7,510	3,217	2,618	520
– Foreign	**10,715**	7,035	3,253	1,796	807
– Real estate	**694**	608	451	180	—
	33,739	33,270	26,385	23,809	19,456
Receivable from Province of Ontario	**1,338**	1,362	1,323	1,190	945
Other assets	**36**	36	72	10	—
Total assets	**35,113**	34,668	27,780	25,009	20,401
Liabilities	**(619)**	(957)	(7)	(312)	(277)
Net Assets	**34,494**	33,711	27,773	24,697	20,124
Actuarial smoothing	**(252)**	(2,947)	(414)	(883)	709
Actuarial value of net assets	**34,242**	30,764	27,359	23,814	20,833
Accrued pension benefits	**36,848**	33,998	30,781	27,479	24,391
DEFICIENCY	**2,606**	3,234	3,422	3,665	3,558
PERFORMANCE (%)					
Rate of return	**1.7**	21.7	8.9	19.6	5.6
After inflation	**1.5**	20.0	6.8	15.8	0.6
Benchmark	**-0.3**	20.5*	8.0	15.4	—
After inflation	**-0.5**	18.8	5.9	11.6	—

* restated

We welcome your comments and suggestions for this annual report, as well as other aspects of our communications program. Please call Lee Fullerton, Communications Manager at 416-730-5347.

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